

VZCZCXYZ0000
RR RUEHWEB

DE RUEHZP #1719/01 3031644
ZNY CCCCC ZZH
R 301644Z OCT 07
FM AMEMBASSY PANAMA
TO RUEHC/SECSTATE WASHDC 1341
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RHMFISS/COMDT COGARD WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEAUSA/DEPT OF HHS WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUENAAA/SECNAV WASHDC
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L PANAMA 001719

SIPDIS

SIPDIS

FOR STATE WHA/CEN - TELLO

E.O. 12958: DECL: 10/01/2009

TAGS: [ECON](#) [ETRD](#) [PM](#) [PREL](#)

SUBJECT: U.S. FIRM EXPECTS LABOR AND HOUSING CONSTRAINTS ON
PANAMA CANAL EXPANSION

REF: A. PANAMA 2374
[1](#)B. PANAMA 807
[1](#)C. PANAMA 1107
[1](#)D. PANAMA 1236

Classified By: Economic Section Chief Timothy P.Lattimer - Reasons 1.5(
d&e)

[1](#)1. (C) SUMMARY. On October 16, 2007, EconOff met with Bechtel's Peter Pappas, Principal Vice President, and Paul Gibbs, Business Development Manager, to discuss Bechtel's design/build contract bid on the \$5.25 billion Panama Canal expansion project. The contract winner is scheduled to be announced during the fourth quarter of 2008. Pappas said Bechtel will have to train virtually all of the Panamanian workers it would hire. Pappas and Gibbs said that they feel that the Panama Canal Authority (ACP) may have underestimated the amount of work required to manage the design/bid contract bidding process. They said Panama's current infrastructure is inadequate to handle the movement and housing of the necessary workers and equipment for the project. Pappas said the lack of adequate roads and the need for temporary worker housing would likely hamper the project. Regardless of which consortium wins the design/build contract, Pappas and Gibbs said there will very few opportunities for U.S. suppliers. Pappas said that if Bechtel wins the contract, the majority of the material, equipment and workers would come from non-U.S. suppliers. END SUMMARY.

ACP May Have Underestimated the Task

[1](#)2. (U) On October 16, 2007, EconOff met with Pappas and Gibbs to discuss Bechtel's design/build contract bid on the \$5.25 billion Panama Canal expansion project. The design/build contract is estimated at \$3 billion. (See reftel A.) Initial bids for the pre-qualification round are due by November 15, 2007. It is anticipated the list of pre-qualified bidders will be announced during the first quarter of 2008. The contract winner is scheduled to be announced during the fourth quarter of 2008.

[1](#)3. (C) Pappas and Gibbs said that the ACP may have underestimated the amount of work required to manage the design/bid contract bidding process. Pappas said that the process was about 3-4 months behind schedule. He noted that the deadline for bid submissions had already been moved from

October 31 to November 15, and it could be pushed to an even later date. Pappas said that while the canal expansion is a desirable project for Bechtel, it would be a medium sized project for them. Pappas said that Bechtel currently has six projects around the world that exceed \$5 billion in value. The Bechtel executives would not speculate on the potential for any cost overruns for the expansion project.

Contractor to Face Lack of Skilled Labor

14. (C). Pappas said that of the approximately 6,000 workers needed, Bechtel would be lucky to find 1,000 skilled Panamanian workers. Pappas said Bechtel will have to train virtually all of the Panamanian workers it would hire. Pappas said Bechtel would have to bring in hundreds of its own trainers and would have to import a number of foreign skilled workers. Pappas and Gibbs said Bechtel realizes it will have to compete for workers with Occidental Petroleum's proposed \$7-\$8 billion refinery project in Panama's Puerto Armuelles area. (See reftels B and C.)

Road and Housing Constraints Could Impact Expansion Project

15. (C) Pappas and Gibbs said that Panama's current infrastructure is inadequate to handle the movement and housing of the necessary workers and equipment for the project. Pappas said Bechtel would have to build the necessary (and currently nonexistent) access roads and housing for thousands of workers on each of the Pacific and Atlantic entrances to the canal. The alternative, Gibbs said,

was to have hundreds of buses transporting workers daily. Each described this as completely unworkable given the current state of already saturated roadways. The much-touted Panama City-Colon road, which is scheduled to open January 2009, is seriously behind schedule according to Gibbs. He believes the road will not be built before the third quarter of 2009 at the earliest. Pappas and Gibbs said the road is crucial to the movement of personnel and equipment for the project.

16. (C) Pappas said that the current environmental impact study does not contemplate the construction of temporary worker homes. In his opinion, the environmental impact study is worthless without acknowledging the need for worker housing near the work sites. He also said that the Torrijos administration's position that the GOP would not build, or allow, temporary worker housing sites is unrealistic if the ACP is to complete the project within the stated budget and timeframe.

Most Materials and Equipment to Come From Non-U.S. Companies

17. (C) Regardless of which consortium wins the design/build contract, Pappas and Gibbs said there will very few opportunities for U.S. suppliers. Pappas said that if Bechtel wins the contract, the majority of the material, equipment and workers would come from non-U.S. suppliers. Pappas said the U.S. does not have the raw materials needed (such as cement and rebar), there are few U.S. companies which have any expertise in the expansion project, and much of the heavy machinery they would contract for would come from Asian and European suppliers. Gibbs said U.S. companies are uncompetitive in this field and noted that the sole U.S. bidder on the first of the five excavation contracts had a bid twice as high as the winning bidder. (See reftel D.) Of the 60 companies that attended the design/build contract pre-qualification meeting on September 17, 2007, the only U.S. construction companies present were Bechtel and MWH of Colorado. The Bechtel bid is being handled from their London offices.

18. (SBU) Bechtel's comments reaffirmed Post's view that the canal expansion project will encounter some serious obstacles. The lack of skilled workers continues to concern every major company seeking to do business in Panama. Now that the expansion project is in the hands of knowledgeable professionals, they have begun to ask inconvenient questions about how the GOP and the ACP will provide needed ancillary services (roads, housing, energy, healthcare, and training). Bechtel appears convinced that the GOP is not up to the task and that it will fall to the contractors to provide the necessary infrastructure, training, and housing. Despite the GOP's efforts \$88 million effort to train Panamanians to work on the canal expansion project, it is becoming increasingly clear that there will not be enough qualified Panamanian workers. Given Panamanian laws requiring that 90% of the workforce be Panamanian, contractors will be required to expend significant time, effort and money to train the requisite number of Panamanians. While the ACP claims it has built in adequate reserves for delays and budget overruns in the \$5.25 budget, the lack of skilled labor has the potential to result in significant delays and possible cost overruns.

19. (U) Given Bechtel's comments in paragraph 7 and the few remaining canal expansion contracts up for bid, it appears that U.S. companies will have limited opportunities for further participation. Currently it is anticipated that only two U.S. companies will bid in the design/build contract as a significant participant. As Bechtel states, much of the material and equipment will come from non-U.S. companies. Further, the remaining four excavation contracts will almost assuredly go to non-U.S. companies; especially given that only one U.S. company bid for the first excavation contract and bid double the amount of the winning bid. To date, U.S. participation in the canal expansion process has been limited to winning the services contracts (environmental impact,

legal, and project manager). This reflects the nature of U.S. foreign direct investment in Panama, where the bulk of the investment is in financial instruments, banks, holding companies and some wholesale businesses. Aside from Occidental Petroleum's proposed oil refinery, U.S. companies are not participating in any of the other large scale infrastructure projects in Panama. Most of the other large scale infrastructure projects in Panama are being handled by Colombian, Brazilian and Spanish companies. End Comment.
EATON